Daiwa Capital Markets Hong Kong Limited

Taiwan Semiconductor Manufacturing (2330 TT)

Target price: **TWD3,000.00** (from TWD2,330.00)

Share price (16 Jul): **TWD2,470.00** | Up/downside: **+21.5%**

5 4 3 2 **1**

Buy
(unchanged)

Yes, it's good and it's true

- Another "beat-n-raise" in 2Q26 results and 2026 guidance
- Raising our forecasts on AI demand scaling out to agentic
- Reaffirming Buy (1) with a higher 12M TP of TWD3,000

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What's new: TSMC reported another "beat-n-raise" in its quarterly results and guidance, and further lifted its 2026 top-line target as well as capex to accommodate such a strong growth. Though some investors may not be happy with its margin guidance, we merit TSMC's disciplined pricing strategy, which appears to be reflecting its structural value in the supply chain rather than anything opportunistic. We raise our forecasts and target price, and reaffirm our Buy (1) call on the counter.

What's the impact: Another beat-n-raise but … TSMC reported another beat-n-raise results and guidance (*Too good to be true (II)?*). 2Q26 EPS finished at TWD27.25, 13% above our/consensus estimates. We attribute the beat to higher non-operating gains since core operations were intact despite the margin beat on better opex control (table on p.2). TSMC further raised 2026 revenue growth in USD terms for the second time to above 40% YoY (previous: more than 30%). We attribute the delta to stronger demand for CPU (x86 and Arm) as AI architecture migrates to agentic from generative. To accommodate the stronger growth, TSMC raised its 2026 capex to USD60-64bn (previous: USD52-56bn), partially reflecting "tool inflation" due to a ripple effect of cost hikes in the supply chain. Foreseeing strong AI demand with visibility into 2030, TSMC will add USD100bn in Arizona to bring up total investment to USD265bn, likely accommodating up to 9 front-end wafer fabs and 3 back-end facilities, in our view.

… margins may disappoint equity market. Though revenue guidance for 3Q26 looks intact (3% above the consensus), some equity investors may not be happy with the guided gross margin (GM) as they benchmark TSMC's profitability against that of memory makers, along with consideration of its margin-dilutive operations overseas and materials cost hikes. We, however, modelled 65-66% GM previously for TSMC in 2H26 and 2027 as we merit TSMC's disciplined pricing strategy of treating customers as long-term partners for a harmony of value proposition across the supply chain, rather than anything opportunistic by taking advantage of any seasonal volatility. In all, we raise our 2026-28E EPS by 8-12%.

What we recommend: Given our forecast revisions, we lift our 12M TP for TSMC to TWD3,000 (previous: TWD2,330), based on our higher ROE-adjusted PBR of 7.7x (previous: 6.7x). Our TP translates into 4-quarter forward PER of 23x, undemanding from the PEG point of view despite the high PBR target, considering our revised 2025-28E EPS CAGR of 31%. We reaffirm our Buy (1) rating with downside risks of "silicon inflation" and geopolitical overhangs leading to global inflation and AI capex cuts.

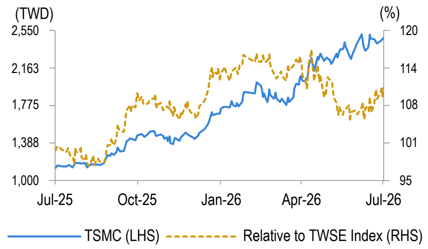
How we differ: Our 2026-27E EPS are 4-10% above the consensus forecasts as we believe the street has underestimated the CPU upside.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	3.9	8.6	5.9
Net profit change	8.4	11.8	8.1
Core EPS (FD) change	8.4	11.8	8.1

Source: Daiwa forecasts

Share price performance



12-month range	1,125.00-2,510.00
Market cap (USDbn)	1,989.97
3m avg daily turnover (USDm)	2,716.56
Shares outstanding (m)	25,932
Major shareholder	National Development Fund (6.4%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	5,482,671	6,896,580	7,707,441
Operating profit (m)	3,235,827	4,030,109	4,424,887
Net profit (m)	2,842,467	3,492,695	3,883,696
Core EPS (fully-diluted)	109.612	134.687	149.765
EPS change (%)	65.5	22.9	11.2
Daiwa vs Cons. EPS (%)	9.6	3.5	(8.0)
PER (x)	22.5	18.3	16.5
Dividend yield (%)	1.1	1.1	1.2
DPS	26.0	28.0	30.0
PBR (x)	8.1	6.0	4.6
EV/EBITDA (x)	15.1	11.6	9.8
ROE (%)	42.8	37.6	31.6

Source: FactSet, Daiwa forecasts

Flash

TSMC: quarterly P&L forecasts

TWDbn	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Total revenue	1,134	1,270	1,463	1,615	1,553	1,682	1,828	1,833	3,809	5,483	6,897	7,707
Total revenue (USDbn)	**35.9**	**40.2**	**45.7**	**50.5**	**48.5**	**52.6**	**57.1**	**57.3**	**122.5**	**172.3**	**215.5**	**240.9**
COGS	-383	-410	-477	-529	-528	-553	-605	-612	-1,528	-1,800	-2,298	-2,651
Gross profit	751	860	985	1,086	1,025	1,129	1,223	1,221	2,281	3,683	4,599	5,057
Opex	-92	-94	-130	-131	-129	-140	-150	-150	-345	-447	-569	-632
Operating profit	659	767	855	955	896	990	1,073	1,071	1,936	3,236	4,030	4,425
EBITDA	824	965	1,065	1,196	1,151	1,250	1,362	1,370	2,624	4,051	5,133	5,827
Pretax profit	688	862	888	993	936	1,032	1,117	1,117	2,042	3,432	4,203	4,674
Income taxes	-115	-156	-151	-169	-159	-175	-190	-190	-326	-590	-715	-794
Net profit	572	707	738	825	778	858	928	929	1,718	2,842	3,493	3,884
FD O/S (bn)	26	26	26	26	26	26	26	26	26	26	26	26
FD EPS (TWD)	**22.08**	**27.25**	**28.47**	**31.82**	**30.01**	**33.08**	**35.79**	**35.81**	**66.24**	**109.61**	**134.69**	**149.76**
Margin												
Gross	66%	68%	67%	67%	66%	67%	67%	67%	60%	67%	67%	66%
Operating	58%	60%	58%	59%	58%	59%	59%	58%	51%	59%	58%	57%
EBITDA	73%	76%	73%	74%	74%	74%	74%	75%	69%	74%	74%	76%
Net	50%	56%	50%	51%	50%	51%	51%	51%	45%	52%	51%	50%
Growth (QoQ)												
Total revenue	8%	12%	15%	10%	-4%	8%	9%	0%				
Gross profit	15%	15%	15%	10%	-6%	10%	8%	0%				
Operating profit	17%	16%	12%	12%	-6%	10%	8%	0%				
EBITDA	13%	17%	10%	12%	-4%	9%	9%	1%				
Net profit	13%	23%	4%	12%	-6%	10%	8%	0%				
FD EPS	13%	23%	4%	12%	-6%	10%	8%	0%				
Growth (YoY)												
Total revenue	35%	36%	48%	54%	37%	32%	25%	14%	32%	44%	26%	12%
Gross profit	52%	57%	67%	67%	36%	31%	24%	12%	40%	61%	25%	10%
Operating profit	62%	65%	71%	69%	36%	29%	25%	12%	46%	67%	25%	10%
EBITDA	42%	48%	61%	64%	40%	29%	28%	15%	32%	54%	27%	14%
Net profit	58%	77%	63%	63%	36%	21%	26%	13%	46%	65%	23%	11%
FD EPS	**58%**	**77%**	**63%**	**63%**	**36%**	**21%**	**26%**	**13%**	**46%**	**65%**	**23%**	**11%**

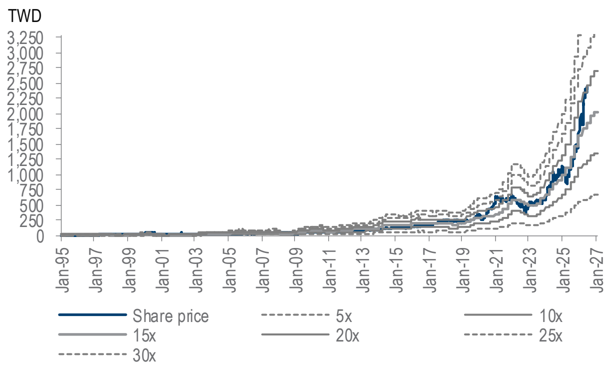
Source: Company, Daiwa estimates and forecasts

TSMC: 2Q26 results review and 3Q26 guidance check

	2Q26			Growth		3Q26E	
TWDm	Actual	Daiwa	Variance	QoQ	YoY	Guidance	Daiwa (previous)
Revenue	1,270,381	1,265,654	0%	12%	36%	USD44.6-45.8bn (TWD1427-1466bn)	USD45bn (+12% QoQ)
Gross profit	860,311	850,754	1%	15%	57%	65-67%	66.2%
Operating profit	766,603	746,970	3%	16%	65%	56-58%	58.1%
EBITDA	965,141	926,970	4%	17%	48%		
Pretax profit	862,430	778,885	11%	25%	75%	Capex raised to USD60-64bn	USD56bn
Net profit	706,562	623,887	13%	23%	77%		
Adjusted EPS (TWD)	27.25	24.06	13%	23%	77%		
Margin							
Gross	67.7%	67.2%	0.5%				
Operating	60.3%	59.0%	1.3%				
EBITDA	76.0%	73.2%	2.7%				
Net	55.6%	49.3%	6.3%				
Operation							
Shipment ('000, 12" equ.wafers)	4,336	4,472	-3%				
Utilization*	86%	89%	-3%				
<=3nm sales contribution	33%	30%	3%				

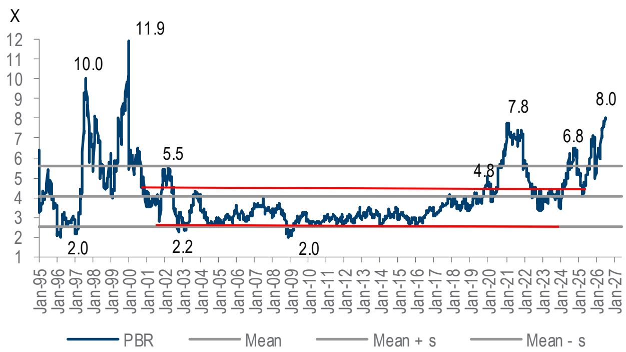
Source: Company, Daiwa estimates and forecasts
*Note: * Calculated as wafer shipment divided by capacity estimated by Daiwa*

TSMC: 4-quarter forward PER bands



Source: Company, TEJ, Daiwa forecasts

TSMC: PBR trend



Source: Company, TEJ, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Capacity utilization (%)	102	98	73	76	80	90	99	100
Blended ASP (USD)	1,642	1,933	2,101	2,546	2,930	3,440	3,734	3,866
Wafer shipment (8" equ., '000)	31,902	34,320	27,005	29,051	33,802	40,889	47,454	51,233

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Wafer Foundry Revenue	1,463,158	1,979,215	1,770,430	2,377,502	3,079,347	4,476,254	5,670,879	6,337,629
Sub & Other Revenue	124,258	284,677	391,305	516,806	729,707	1,006,417	1,225,701	1,369,812
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	**1,587,415**	**2,263,891**	**2,161,736**	**2,894,308**	**3,809,054**	**5,482,671**	**6,896,580**	**7,707,441**
Other income	0	0	0	0	0	0	0	0
COGS	(767,878)	(915,536)	(986,625)	(1,269,954)	(1,527,760)	(1,799,771)	(2,297,717)	(2,650,544)
SG&A	(44,822)	(63,813)	(71,275)	(98,119)	(98,775)	(117,396)	(154,960)	(169,564)
Other op.expenses	(124,735)	(163,262)	(182,370)	(204,182)	(246,427)	(329,678)	(413,795)	(462,446)
Operating profit	**649,981**	**1,121,279**	**921,466**	**1,322,053**	**1,936,092**	**3,235,827**	**4,030,109**	**4,424,887**
Net-interest inc./(exp.)	488	10,672	48,295	76,718	93,369	121,900	162,500	237,920
Assoc/forex/extraord./others	12,657	12,239	9,411	7,068	12,202	73,881	10,394	10,714
Pre-tax profit	**663,126**	**1,144,190**	**979,171**	**1,405,839**	**2,041,663**	**3,431,607**	**4,203,003**	**4,673,521**
Tax	(66,053)	(127,290)	(141,404)	(233,407)	(326,266)	(590,482)	(714,511)	(794,499)
Min. int./pref. div./others	(533)	(370)	730	836	2,486	1,341	4,203	4,674
Net profit (reported)	**596,540**	**1,016,530**	**838,498**	**1,173,268**	**1,717,883**	**2,842,467**	**3,492,695**	**3,883,696**
Net profit (adjusted)	**596,540**	**1,016,530**	**838,498**	**1,173,268**	**1,717,883**	**2,842,467**	**3,492,695**	**3,883,696**
EPS (reported)(TWD)	**23.005**	**39.204**	**32.334**	**45.252**	**66.255**	**109.612**	**134.687**	**149.765**
EPS (adjusted)(TWD)	**23.005**	**39.204**	**32.334**	**45.252**	**66.255**	**109.612**	**134.687**	**149.765**
EPS (adjusted fully-diluted)(TWD)	**23.006**	**39.203**	**32.334**	**45.242**	**66.243**	**109.612**	**134.687**	**149.765**
DPS (TWD)	**10.250**	**11.001**	**11.249**	**14.003**	**18.003**	**26.000**	**28.000**	**30.000**
EBIT	**649,981**	**1,121,279**	**921,466**	**1,322,053**	**1,936,092**	**3,235,827**	**4,030,109**	**4,424,887**
EBITDA	**1,072,375**	**1,558,533**	**1,453,657**	**1,984,848**	**2,624,188**	**4,050,666**	**5,133,229**	**5,827,072**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	663,126	1,144,190	979,171	1,405,839	2,041,663	3,431,607	4,203,003	4,673,521
Depreciation and amortisation	422,395	437,254	532,191	662,795	688,096	814,839	1,103,120	1,402,185
Tax paid	(66,053)	(127,290)	(141,404)	(233,407)	(326,266)	(590,482)	(714,511)	(794,499)
Change in working capital	(100,384)	(53,286)	324	(90,088)	160	(270,000)	(35,000)	(175,000)
Other operational CF items	193,077	209,731	(128,316)	81,038	(128,677)	(3,836)	(1,232)	(1,033)
Cash flow from operations	**1,112,161**	**1,610,599**	**1,241,967**	**1,826,177**	**2,274,976**	**3,382,130**	**4,555,381**	**5,105,174**
Capex	(839,196)	(1,082,672)	(949,817)	(956,007)	(1,272,411)	(1,963,599)	(1,960,000)	(2,161,600)
Net (acquisitions)/disposals	4,676	(128,712)	(55,781)	(57,882)	(37,079)	738	0	0
Other investing CF items	(1,847)	20,456	99,477	149,046	165,097	0	0	0
Cash flow from investing	**(836,366)**	**(1,190,928)**	**(906,121)**	**(864,843)**	**(1,144,393)**	**(1,962,861)**	**(1,960,000)**	**(2,161,600)**
Change in debt	(1,090)	(1,730)	(17,407)	21,601	(46,362)	(136,926)	(128,434)	(109,169)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(265,786)	(285,234)	(291,722)	(363,055)	(466,779)	(674,232)	(726,096)	(777,960)
Other financing CF items	(3,622)	59,198	10,284	8,054	(64,022)	0	0	0
Cash flow from financing	**(270,499)**	**(227,766)**	**(298,844)**	**(333,399)**	**(577,163)**	**(811,158)**	**(854,530)**	**(887,129)**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**5,296**	**191,905**	**37,002**	**627,935**	**553,420**	**608,111**	**1,740,851**	**2,056,445**
Free cash flow	272,965	527,927	292,151	870,170	1,002,565	1,418,531	2,595,381	2,943,574

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	1,188,442	1,561,483	1,687,644	2,422,009	3,068,595	3,675,968	5,416,818	7,473,263
Inventory	193,102	221,149	250,997	287,869	288,109	398,109	458,109	508,109
Accounts receivable	207,637	231,409	201,938	272,088	281,791	461,791	466,791	596,791
Other current assets	17,892	38,856	53,453	106,387	178,635	180,000	30,000	30,000
Total current assets	**1,607,073**	**2,052,897**	**2,194,033**	**3,088,352**	**3,817,131**	**4,715,868**	**6,371,719**	**8,608,164**
Fixed assets	1,975,119	2,693,837	3,064,475	3,234,980	3,691,841	5,186,798	6,399,770	7,379,841
Goodwill & intangibles	113,927	149,117	144,421	219,565	251,682	179,500	189,200	194,000
Other non-current assets	29,385	68,928	129,442	149,040	172,370	172,370	172,370	172,370
Total assets	**3,725,503**	**4,964,779**	**5,532,371**	**6,691,938**	**7,933,024**	**10,254,537**	**13,133,059**	**16,354,375**
Short-term debt	127,171	19,314	9,293	59,858	136,926	128,434	109,169	92,794
Accounts payable	48,911	56,522	57,293	74,227	84,330	104,330	134,330	139,330
Other current liabilities	563,421	868,391	846,997	1,130,441	1,236,763	1,220,434	1,363,336	1,522,236
Total current liabilities	**739,503**	**944,227**	**913,583**	**1,264,525**	**1,458,019**	**1,453,199**	**1,606,836**	**1,754,360**
Long-term debt	610,071	834,336	913,900	926,605	856,228	727,793	618,624	525,831
Other non-current liabilities	205,196	225,727	221,625	177,233	157,982	160,000	165,000	170,000
Total liabilities	**1,554,770**	**2,004,290**	**2,049,108**	**2,368,362**	**2,472,229**	**2,340,992**	**2,390,460**	**2,450,191**
Share capital	259,304	259,304	259,321	259,327	259,325	259,325	259,325	259,325
Reserves/R.E./others	1,908,983	2,686,349	3,199,593	4,029,218	5,160,271	7,611,680	10,436,531	13,593,442
Shareholders' equity	**2,168,287**	**2,945,653**	**3,458,914**	**4,288,545**	**5,419,596**	**7,871,005**	**10,695,856**	**13,852,768**
Minority interests	2,447	14,836	24,349	35,031	41,199	42,540	46,743	51,417
Total equity & liabilities	**3,725,503**	**4,964,779**	**5,532,371**	**6,691,938**	**7,933,024**	**10,254,537**	**13,133,059**	**16,354,375**
EV	63,603,286	63,359,043	63,311,938	62,651,524	62,017,798	61,274,840	59,409,758	57,248,818
Net debt/(cash)	**(451,200)**	**(707,833)**	**(764,451)**	**(1,435,546)**	**(2,075,442)**	**(2,819,740)**	**(4,689,025)**	**(6,854,639)**
BVPS (TWD)	**83.621**	**113.600**	**133.384**	**165.370**	**208.985**	**303.525**	**412.458**	**534.196**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	18.5	42.6	(4.5)	33.9	31.6	43.9	25.8	11.8
EBITDA (YoY)	19.4	45.3	(6.7)	36.5	32.2	54.4	26.7	13.5
Operating profit (YoY)	14.7	72.5	(17.8)	43.5	46.4	67.1	24.5	9.8
Net profit (YoY)	15.2	70.4	(17.5)	39.9	46.4	65.5	22.9	11.2
Core EPS (fully-diluted) (YoY)	15.2	70.4	(17.5)	39.9	46.4	65.5	22.9	11.2
Gross-profit margin	51.6	59.6	54.4	56.1	59.9	67.2	66.7	65.6
EBITDA margin	67.6	68.8	67.2	68.6	68.9	73.9	74.4	75.6
Operating-profit margin	40.9	49.5	42.6	45.7	50.8	59.0	58.4	57.4
Net profit margin	37.6	44.9	38.8	40.5	45.1	51.8	50.6	50.4
ROAE	29.7	39.8	26.2	30.3	35.4	42.8	37.6	31.6
ROAA	18.4	23.4	16.0	19.2	23.5	31.3	29.9	26.3
ROCE	25.5	33.4	22.4	27.2	32.9	42.5	39.8	34.0
ROIC	37.5	50.2	31.7	39.3	51.9	63.2	60.0	56.1
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	10.0	11.1	14.4	16.6	16.0	17.2	17.0	17.0
Accounts receivable (days)	41.7	35.4	36.6	29.9	26.5	24.8	24.6	25.2
Current ratio (x)	2.2	2.2	2.4	2.4	2.6	3.2	4.0	4.9
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	55.1	47.8	34.8	30.9	27.2	23.7	20.8	20.0
Free cash flow yield	0.4	0.8	0.5	1.4	1.6	2.2	4.1	4.6

Source: FactSet, Daiwa forecasts

Company profile

Incorporated in Taiwan in 1987, Taiwan Semiconductor Manufacturing Co. (TSMC) is the world's largest complementary metal oxide semiconductor (CMOS) foundry in revenue terms. TSMC offers foundry services such as wafer masking, fabrication, probing, packaging and testing, to a high variety of customers including fabless chipmakers and IDMs. Its manufacturing fabs are located in Taiwan, China, the US and Singapore.

ESG analysis

ESG risks

	Risks	Management	Analyst comments
G	Executive/board quality	1	TSMC's board of directors (BoD) has 10 members, including 6 independent directors representing 60% of total directors. The background of TSMC's BoD is diversified, with members from industries, academia, and law. Also, its board members include representatives from not only Taiwan but also Europe and the US, bringing their experience in operating international businesses to the board. We believe the high percentage of independent directors and a diverse mix of expertise from the board members strengthen the functionality of its BoD, as evidenced by TSMC's leading position in the foundry market.
G	Capital management	1	TSMC pays its dividend on a quarterly basis. In the past 5 years, it has managed its dividend payout well, as evidenced by its dividend in dollar terms, where it has never lowered its dividend. As the leader in advanced technology nodes, TSMC has kept expanding its capacity for advanced nodes; as such, we expect its capital intensity to increase to the level near or above 40% over 2022-23 (vs. its long-term target of mid-30%). However, we believe TSMC will at least sustain its cash dividend payout in dollar terms over 2022-23E. We see its balance between investment and dividend as appropriate.
G	Related party & transaction	1	TSMC's sales to related parties were 0.5-0.7% of its total revenue in 2021-22. Its purchase from related parties was 1.0% and 0.7% of its total cost of goods sold in 2021 and 2022, respectively. We see these percentages as insignificant and thus see limited risk for TSMC.
S	Supply chain management	1	As the leader in the global foundry industry, TSMC approaches supply chain management by focusing on 2 main strategies: sustainability risk management and local supply chain optimisation. It requires all its suppliers to comply with its "Code with Ethics and Business Conduct", and to follow regulations on human rights and conflict-free minerals. In 2019, 100% of its tier-1 suppliers signed the "Supplier Code of Conduct" and self-assessment questionnaire on sustainable management. Also, TSMC's raw materials purchased are 100% Democratic Republic of the Congo (DRC) conflict-free. It also requires its critical suppliers to report on the status of sustainability management in their critical upstream supply chains. Through these measures, we see TSMC reducing its supply chain risk.
E	Water & wastewater management	2	TSMC applies internal and external company resources to develop water reclamation technology, implements water conservation measures and uses reeclaimed water in the manufacturing process. For example, on September 19, 2022, TSMC Tainan Science Park Reclaimed Water Plant started supplying reclaimed water. In 2023, TSMC aims to replace 5% of water resources with reclaimed water, and continue to cooperate with the government to complete the 2nd water reclamation plan in Anping, Tainan. In 2030, TSMC targets to replace > 60% of water resources with reclaimed water.
E	Waste & hazardous materials management	1	TSMC's waste recycling rate reached 96% in 2022 for 8 years in a row. Also, the percentage of waste sent to landfills was less than 1% for 13 years in a row in 2022. TSMC achieved reducing its outsourced unit waste disposal (kg/12" equivalent wafer mask layer) to 0.99 in 2022. Furthermore, TSMC has set a goal to reduce its outsourced unit waste disposal per wafer to no more than 0.5 in 2030.
E	GHG emissions	1	TSMC has continued its efforts to reduce greenhouse gas (GHG) emissions to drive low-carbon manufacturing. In 2022, TSMC achieved net zero emissions of direct and indirect (from purchased energy) GHG Emissions in overseas factories, and 100% use of carbon-neutral natural gas in Taiwan fabs. It has set a target to achieve Net Zero Emissions by 2050.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Update Date: 16 Jan 2025

Source: Daiwa, Company

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